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June 10, 2009

Kenneth M. Donohue, Sr.  
Office of Inspector General  
United States Department of Housing and Urban Development  
451 Seventh Street, SW  
Washington, D.C. 20410

Dear Mr. Donohue:

I am writing to ask for an immediate investigation into the Federal Housing Authority (FHA) program that has lost billions of dollars because of lax oversight for taxpayer-backed nonrecourse loans for the purchase and renovation of affordable apartment buildings nationwide under Section 221(d)(4).

An investigation by *The Columbus Dispatch* (articles attached: "Next Loan Disaster," June 7, 2009; "HUD Dumps Problems," June 8, 2009; "Taxpayers Soaked Again," June 9, 2009) in my central Ohio district this week began to expose specific cases of waste, fraud and abuse stemming from this program. A Columbus, OH, company, Columbus Properties Limited Partnership, obtained \$26.6 million from the FHA to purchase and renovate six apartment complexes in central Ohio but never performed renovations, leaving the buildings in the same state of disrepair today as when the apartments were purchased in 1997. These irresponsible landlords put residents' health and safety at risk, while costing the taxpayers millions. This one specific case has made me question how many similar cases may be occurring throughout the country.

FHA insures billions of dollars in multifamily housing mortgage loans to facilitate the construction, substantial rehabilitation, purchase and refinancing of apartments and health care facilities. This useful program has contributed to job creation and affordable housing for many families. FHA programs help open credit markets by protecting lenders against financial losses stemming from a borrower's default. Yet the amount of projects that do default lead to "toxic assets" for the American taxpayers because lenders can assign the mortgage to HUD and file an insurance claim to recoup the unpaid principal.

Two Government Accountability Office studies, nearly a decade old (2000, 2002), identified insufficient oversight protocols, including the screening of potential borrowers and conditions for lending approval. I fear that without proper oversight more cases of default will occur in the near future.

While HUD inherited these problems from the previous administration, it is difficult for me to understand why these problems went uncorrected and were not reformed vigorously.

Government waste must be eliminated quickly so that we can limit spending to programs that are effective. In order to provide better oversight and work constructively to solve these problems, I ask for answers to the following questions:

1. What are the procedures for HUD inspectors to verify all renovations being performed by HUD-assisted landlords, and what procedures are in place that allow HUD officials to verify the work of HUD inspectors?
2. What criminal and civil actions can the federal government pursue against HUD inspectors that signed-off on renovations that were not performed or against recipients of HUD-assisted loans who did not fully perform the work for which the loans were authorized?
3. What is the application and approval process to determine whether an individual meets the standards of HUD-assisted loans under the aforementioned programs?
4. Does HUD have adequate resources to sufficiently monitor, evaluate and manage the stock of properties for these respective programs?
5. What is the total current exposure to FHA for all HUD-assisted loans and what is the total amount of losses from defaulted mortgages auctioned to recoup on defaulted loans?

Given the current economic climate the potential for default on HUD-assisted loans has increased, raising serious concerns about whether HUD is adequately protected to ensure that the American taxpayer is not going to be on the hook for billions of dollars in defaulted loans.

Your immediate attention to this issue is appreciated.

Sincerely,

Mary Jo Kilroy  
U.S. Representative  
Ohio's 15<sup>th</sup> Congressional District